

**INFORMATION BRIEF**  
**Minnesota House of Representatives**  
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# **The Incomes of Parents Leaving AFDC and MFIP**

## **Working Paper, Series Five**

This brief summarizes the incomes of parents leaving Aid to Families with Dependent Children (AFDC) and Minnesota Family Investment Program (MFIP). Key findings are:

- Parents leaving MFIP tend to have slightly higher incomes compared to parents leaving AFDC.
- Parents' incomes tend to increase with the number of years since they were last on AFDC or MFIP.
- Parents leaving their first episode on welfare may have lower incomes, which may be accompanied by some parents returning to welfare.

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**This brief is part of a series of publications on the income dynamics of welfare recipients.** It combines information for single and married parents. Other analyses provide more detailed examinations of the income characteristics of various demographic groups from different regions and time periods. Further work will be done on the effectiveness of the earned income credit and dependent care credit. The research is based upon information from M-1 state income tax files and information on welfare recipients.

The income information includes many, but not all welfare recipients. It includes those who file a standard M-1 tax form. It does not include all welfare recipients' incomes.<sup>1</sup> For example,

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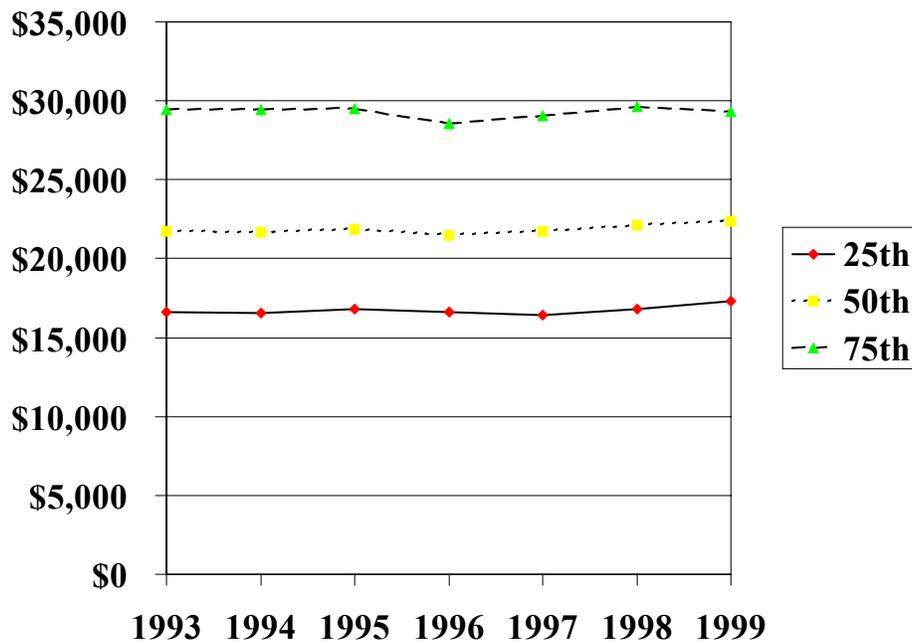
<sup>1</sup> There is no way of knowing how many more recipients have income. We know that in 1998 approximately 66 percent of recipients who received welfare that year also filed an income tax form. We eventually plan to add

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some may have too little income to be required to file. Also, some may move out of the state and have income from other states.<sup>2</sup> More information on the data used is in the appendix.

**Incomes for families leaving MFIP after one year are higher than the incomes of families leaving AFDC after one year.** The figure and table below show the 25<sup>th</sup>, 50<sup>th</sup>, and 75<sup>th</sup> percentile incomes of parents one year after leaving AFDC or MFIP.<sup>3</sup> For example, median income in 1993 for parents leaving welfare in 1992 was \$21,718. The incomes of parents leaving AFDC did not change much over the years (1993 to 1996). However, in the years after welfare reform, the income of parents the year after they left welfare was slightly higher. For parents leaving in 1996, the real median income in 1997 was \$21,752. For parents leaving in 1996, the real median income in 1997 was \$21,752. For parents leaving in 1998, their median family income in 1999 was \$22,338.

Figure 1  
**Real Adjusted Gross Income One Year After Parents Leave Welfare**



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property tax refund statements and wage detail information. Previous analyses suggest that this will add some parents, but will not include everyone.

<sup>2</sup> This may bias the sample results. It is uncertain whether incomes would be lower or higher. Included in this population are migrant farm laborers, persons who leave the state because they have found another job, and persons who leave the state because their spouse works outside the state.

<sup>3</sup> This is for parents on their last recorded episode on welfare. Details of the procedure are listed in the appendix.

Table 1  
**Real Adjusted Gross Income One Year After Parents Leave Welfare**

Percentile	Income in Year*						
	1993	1994	1995	1996	1997	1998	1999
25 <sup>th</sup>	\$16,599	\$16,579	\$16,823	\$16,644	\$16,443	\$16,813	\$17,306
50 <sup>th</sup>	21,718	21,661	21,866	21,503	21,752	22,114	22,338
75 <sup>th</sup>	29,425	29,453	29,530	28,526	29,088	29,628	29,343

\* Real income is estimated for year 2001 with the CPI-U for Minneapolis-St. Paul.

**After families leave welfare, their incomes tend to steadily increase.** Figure 2 and Table 2 list the 25<sup>th</sup>, 50<sup>th</sup>, and 75<sup>th</sup> percentiles of parents' incomes before and after they leave welfare. The table shows that for those reporting income taxes, the median income seven years before leaving welfare was \$23,195. The median income of parents one year after leaving welfare is \$28,000. By six years after leaving welfare, their median incomes were \$33,618.

The figure shows an increase in the rate of annual income growth after a parent leaves welfare. The lower rate of increase before may be in conjunction with parents being on welfare, or parents returning to welfare. Without further examination, it is uncertain why incomes rise after parents leave welfare. For example, it could be because parents are able to find and keep a job. Or, it might be that the parent marries, resulting in higher family income.

Incomes diverge with the number of years after parents leave welfare. The top 25<sup>th</sup> percentile increased in income relative to the lower 25<sup>th</sup>. One year after leaving welfare, parents at the 75<sup>th</sup> percentile had incomes 1.57 times that of the bottom 25<sup>th</sup> percentile. Seven years after leaving welfare, incomes were 1.80 times that of the 25<sup>th</sup> percentile. This might be a sign that some parents experience faster gains in income than others.

Because MFIP is relatively new, we cannot provide comparisons between the two programs. There would only be one or two years of information. Instead, this is for all parents who leave welfare in general.

Figure 2

**Real Adjusted Gross Incomes of Parents Before and After Leaving Welfare**

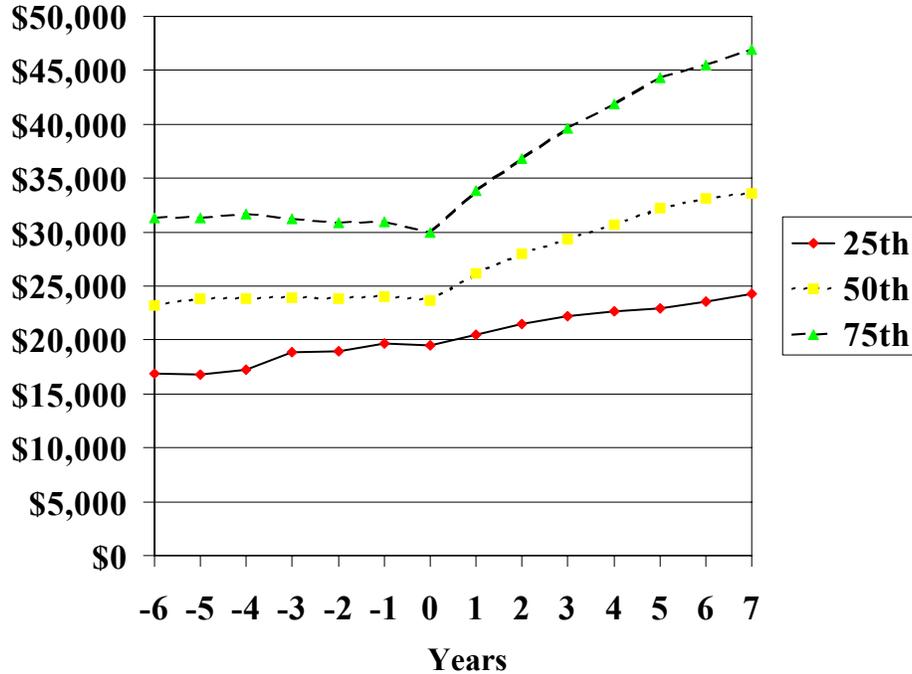


Table 2

**Real Adjusted Gross Incomes of Parents  
 Before and After Leaving Welfare\***

Period	Year	Income by Percentile		
		25th	50th	75th
Years Before Leaving Welfare	-6	\$16,866	\$23,195	\$31,328
	-5	16,800	23,835	31,284
	-4	17,276	23,805	31,699
	-3	18,829	23,897	31,210
	-2	18,911	23,808	30,893
	-1	19,630	23,988	30,931
Year Left Welfare		19,507	23,606	29,954
Years After Leaving Welfare	1	20,494	26,180	33,881
	2	21,493	28,000	36,854
	3	22,180	29,327	39,629
	4	22,615	30,679	41,837
	5	22,968	32,260	44,302
	6	23,561	33,079	45,499
	7	24,256	33,618	46,956

\* Real income is estimated for year 2001 with the CPI-U for Minneapolis-St. Paul.

**A higher proportion of parents leaving their first episode on welfare may have lower incomes.** Figure 3 and Table 3 below list parents' incomes after leaving their first episode. As before, income rises once parents leave their first episode. Although the shapes of the graphs are similar, the incomes are lower for parents leaving their first episode on welfare than for parents leaving their final episode. The median income the year after parents leave their first episode is \$19,941. The median income for parents leaving their last episode is \$26,841.

The difference might be in conjunction with some parents returning to welfare. For many reasons, parents may experience a decrease in their income. For example, parents may lose their job. Or, parents may divorce their spouse. Or, parents leaving their first episode of welfare may simply be younger and have less time and less experience to find and keep a higher paying job. The reasons may be as unique as each individual, but the overall result is that incomes tend to be lower after parents leave their first episode, in comparison to their later episodes.

Figure 3  
**Real Income Before and After the End  
of the Parent's First Episode on Welfare**

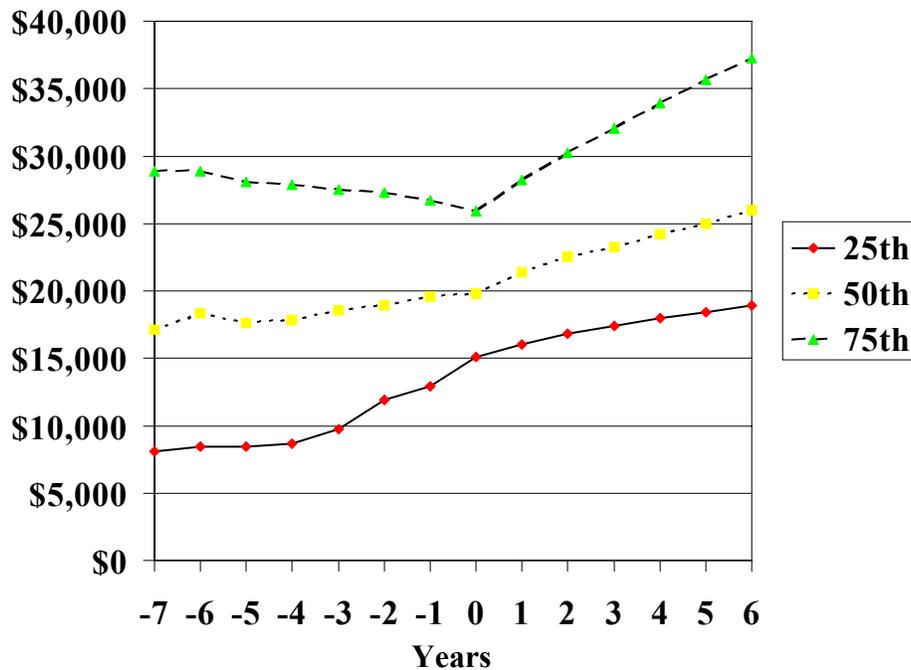


Table 3  
**Real Income Before and After the End  
 of the Parent's First Episode on Welfare\***

Period	Year	Income by Percentile		
		25th	50th	75th
Years Before Leaving Welfare	-7	\$8,078	\$17,128	\$28,859
	-6	8,451	18,353	28,892
	-5	8,413	17,619	28,072
	-4	8,635	17,820	27,855
	-3	9,744	18,543	27,498
	-2	11,894	18,911	27,281
	-1	12,907	19,563	26,738
Year Left Welfare		15,077	19,780	25,887
Years After Leaving Welfare	1	16,031	21,404	28,247
	2	16,852	22,553	30,233
	3	17,423	23,237	32,091
	4	17,944	24,157	33,912
	5	18,378	25,005	35,695
	6	18,888	25,979	37,292

\* Real income is estimated for year 2001 with the CPI-U for Minneapolis-St. Paul.

## Appendix

### Technical Note on the Data

The results come from an administrative data set provided by the Minnesota Department of Human Services (DHS) and the Minnesota Department of Revenue (DOR). The DHS data includes information on every AFDC- and MFIP-eligible adult between the months of January 1992 and September 2001. The data from the DOR is of M-1 income tax information.

We merged the two data sets by first identifying a household head. The data is collapsed into families and only those cases with both eligible parents and eligible children are selected. The data does not consider suspended cases as eligible cases. Parents are classified as suspended for one month after becoming ineligible for AFDC or MFIP.

The data on welfare recipients is merged with M-1 tax records. The data is not a sample, but is an attempt to include every current and former welfare recipient who filed a M-1 form. The data does not necessarily include everyone with income. As stated before, not every welfare recipient files a M-1 form. Also, some welfare recipients did not have enough identifying information to merge the two data sets.

Income is estimated adjusted gross income. It is equal to federal taxable income plus an estimated income subtracted via the standard deduction along with personal and dependent exemptions. The deductions and exemptions are estimated using information on filing status and the number and age of children eligible for AFDC and MFIP. It was assumed anyone over 18 years old was no longer claimed as a dependent. Some parents may have income, but report zero federal taxable income. This is because their exemptions and standard deduction is greater than their income. For that reason, adding back in the exemptions and deductions may overstate the income of some parents. However, a relatively small proportion of parents have zero federal taxable incomes.

Table 1 and Figure 1 were constructed by finding the last episode that parents are on welfare. The incomes are for the year immediately following the year they left. In more recent years, it is likely that an increasing proportion of parents will return in future years. However, the data reported in the table include those parents who have not returned for at least two years. A check using data for parents who do not return for three years instead, did not produce substantially different levels of income.

Table 2 and Figure 2 were calculated by identifying the year that parents leave welfare and by grouping income tax records based upon the number of years before or after leaving welfare. The data is such that income information two or more years after leaving welfare are of AFDC recipients. For parents leaving welfare in 1992, there may be income information up to seven years after they leave welfare (1999).

Table 3 and Figure 3 are the same as Table 2 and Figure 2, except that Table 3 and Figure 3 are for the year parents leave their first episode. To help eliminate parents who may have been on welfare in previous years, but before the beginning of this data set, entrants had to be away from

welfare for at least one year. Although this is a standard practice, it cannot guarantee that everyone included in the analysis is on his or her first episode. However, it is likely that parents, especially in recent years, are more likely to be on their first episode.

See also the related House Research publications *Regional Differences in Income for Former Welfare Recipients* and *Former Welfare Parents and the Poverty Guidelines*.

*For more information about MFIP recipients, visit the health and human services area of our web site, [www.house.leg.state.mn.us/hrd/issinfo/hlt\\_hum.htm](http://www.house.leg.state.mn.us/hrd/issinfo/hlt_hum.htm).*